

BUSINESS, TRANSPORTATION, AND HOUSING

The Business, Transportation, and Housing Agency includes programs that: plan, build, and maintain California's state transportation systems; ensure efficient and fair markets for the real estate industry, health care plans, and certain financial businesses; and assist community efforts to expand the availability of affordable housing for a growing workforce. In addition, the Agency contributes to public safety through the law enforcement activities of the California Highway Patrol and the Department of Alcoholic Beverage Control. Information on the Highway Patrol's budget can be found in the Corrections and Law Enforcement section. With the elimination of the Technology, Trade, and Commerce Agency, the Agency also contains programs that assist the state's infrastructure, small business finance, and economic development by encouraging and promoting economic activity and investment within the state.

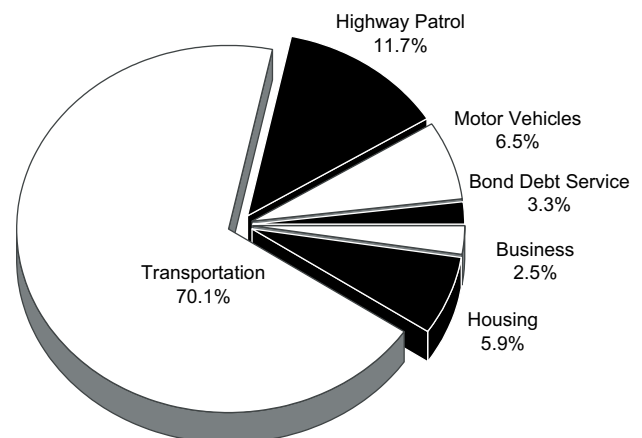
Figure BTH-1 displays the funding proposed in the Business, Transportation, and Housing portion of the Governor's Budget from all fund sources. The majority of the funding is provided from special fund revenues and federal funds. General Fund expenditures are made for general obligation bond debt service for transportation projects, bridge seismic retrofit, and housing bonds.

Office of the Secretary of Business, Transportation, and Housing

The Governor's Budget proposes \$28.7 million and 59 personnel years to support the activities of the Office of the Secretary. Along with the policy direction provided over its traditional complement of department programs, as of January 1, 2004, the Office of the Secretary also includes the following programs that were previously part of the Technology, Trade, and Commerce Agency:

FIGURE BTH-1

Business, Transportation, and Housing Agency 2003-04 Expenditures





the California Tourism Commission, the California Film Commission, the California Infrastructure and Economic Development Bank, the Small Business Loan Guarantee Program, and the Manufacturing Technology Program. These programs were transferred to the Office of the Secretary pursuant to the 2003 Budget Act and Chapter 229, Statutes of 2003 (AB 1757) and represent \$14.5 million and 37 personnel years in the Governor's Budget for the Office of the Secretary. This amount does not include expenditure of proceeds from bonding out existing projects by the California Infrastructure and Economic Development Bank. Budget trailer bill legislation will be required to permit these remaining programs to operate as envisioned by the Legislature. In addition, the Secretary of the Agency will be undertaking a review of how to best utilize these program resources to assist in economic development.

Transportation

The Department of Transportation, the California Transportation Commission, the California Highway Patrol, the Department of Motor Vehicles, the Office of Traffic Safety, and local government agencies administer transportation and related public safety programs. Transportation funding comes from State and federal fuel taxes, the sales and use tax on fuel, motor vehicle licensing and registration fees, weight fees for trucks, and local sales taxes. The Governor's Budget proposes total expenditures of \$9.6 billion in 2004-05 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, and highway law enforcement

Resources for Transportation

Through California's borders, ports, rail, and highway corridors, California transportation

supports the mobility of goods and people, creates jobs directly and throughout the economy, and leverages local and federal resources for critical mobility and air quality projects.

The 2002 State Transportation Improvement Program (STIP) Fund Estimate, adopted by the California Transportation Commission (CTC) in August 2001, identified \$3.2 billion from federal and State resources available for new project programming in 2002-03 through 2006-07. Those resources were not fully realized, primarily because:

- The 2002 Fund Estimate assumed the federal transportation act reauthorization in federal fiscal year 2004 would result in a 20 percent increase in federal funds. Due to federal budget pressures, the federal funds increase has grown at less than the 20 percent projected. Federal action on transportation reauthorization will have an impact on future growth.
- Weight fee revenues have been less than expected due to the unintended consequences of Chapter 861, Statutes of 2000 (SB 2084).
- During that same period, the 2002 Fund Estimate assumed there would be \$502 million in Transportation Investment Fund (TIF) resources available. To date only a partial TIF transfer of \$289 million has occurred; \$189 million of which is proposed for repeal in the mid-year budget reductions due to budgetary pressures.

Over the course of the 2002 Fund Estimate period, the CTC programmed transportation projects assuming the 2002 Fund Estimate projection of available resources would materialize. The implications of this

programming level, when combined with the lower-than-anticipated resource levels, is reflected in the recently adopted 2004 STIP Fund Estimate. The lack of anticipated resources, including other transportation loans, also required the CTC to significantly slow allocations for projects. The 2004 Fund Estimate identifies the need to reschedule \$2.3 billion in projects into subsequent fiscal years, assuming a 2004-05 TIF transfer (as adopted in Proposition 42 in 2002 by the voters), and \$2.6 billion without a TIF transfer.

Suspension of the Proposition 42 Transfer

The Governor is committed to solving both the current fiscal crisis and the long-term structural deficit in the State Budget. The State's fiscal crisis has had many negative impacts on our economy. The ongoing crisis has forced the Administration to propose a suspension of the Proposition 42 transfer of \$1.127 billion (\$947.2 million for transfer to State funds and \$179.5 million for allocation to local governments) for the 2004-05 fiscal year. The TIF transfer was originally enacted with the 2000 Budget Act, during a period of budget surpluses. No new revenue was provided for the program at that time; instead, it was funded out of existing General Fund revenues. To fully fund the TIF transfers in the 2004-05 pursuant to Proposition 42 would require additional reductions in other General Fund areas.

Transportation Funding

Transportation funding alternatives must be identified to assist in economic growth, improve the mobility of people and goods in California and throughout the nation, and improve our quality of life. The Governor is committed to working with the transportation stakeholder, business, and labor communities in a full review of opportunities to fully

leverage State and federal transportation resources.

Federal Transportation Reauthorization

One of the most important issues before Congress is the reauthorization of the nation's surface transportation programs, which provide federal resources for highway, bridge, and transit projects. California has 12 percent of the national population, 13.5 percent of the national Gross Domestic Product, and the responsibility to move goods through California's borders and ports to and from consumers and businesses nationwide. This growth and economic activity must be reflected in federal transportation programs. The Administration will take an active role with California transportation stakeholders in seeking responsible overall funding levels from Washington, D.C., and a share of those programs that reflect California's critical role in the national economy and global trading system.

Department Of Transportation

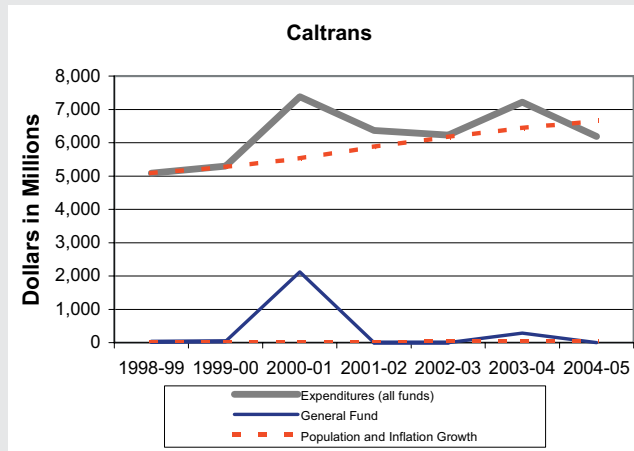
Functions of the Department of Transportation

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.



Key Audit Findings— Department of Transportation

- From 1998-99 to the 2003 Budget Act, total funding for Caltrans has increased from \$5.1 billion to \$7.2 billion, an increase of \$2.1 billion, or approximately 42 percent.
- Caltrans' budget expenditures have generally exceeded population and inflation growth over the audit period with larger gaps in 2001-02 and 2003-04.
- In 2001-02, a one-time \$2 billion transfer was received from the General Fund. This transfer was related to the inception of the Traffic Congestion Relief Program (TCRP). The TCRP, however, has ongoing costs that can no longer be sustained. TCRP projects were selected outside of normal transportation planning processes.
- In 2003-04, expenditures are higher due to a one-time acceleration of increased federal collections associated with the Administration's mid-year proposal to convert local programs to cash management.
- Expenditures in 2003-04 also reflect higher expenditures of Toll Bridge Seismic Retrofit funds and the expenditure of proceeds from "GARVEE" bonds.



Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$7.4 billion in 2004-05 expenditures for Caltrans from federal funds, various State funds (including financed resources), and reimbursements. Staffing of 20,585.2 personnel years is also proposed.

Transportation projects and operations generally are supported from dedicated special funds and federal funds. This approach guarantees funding for multi-year planning processes that need sustained revenues to

fund large projects. The major transportation funding sources are:

- State and federal fuel taxes deposited in the State Highway Account (SHA).
- Certain sales taxes on fuel deposited directly into the Public Transportation Account (PTA), which fund transit and intercity rail capital projects as well as transit operations.

Grant Anticipation Revenue Vehicles (GARVEE Bonds or GARVEEs)—GARVEEs are debt instruments where future federal-

aid highway funds are pledged to meet debt service requirements. The Administration endorses the use of GARVEE financing to infuse funds into transportation in the near term, especially during these times of fiscal constraint. The first issuance of these bonds is anticipated in February 2004.

The Governor's Budget includes an appropriation of \$800 million for new allocations from GARVEE bond proceeds and an appropriation of \$804.4 million for GARVEE bond debt service for the upcoming inaugural issuance of GARVEE debt.

Proposition 42—Passed by voters in March 2002, Proposition 42 amended the State Constitution to permanently dedicate State sales taxes on gasoline to transportation purposes beginning in 2003-04. That proposition included a provision that allows the Administration and the Legislature to suspend the sales tax transfer in a fiscal year for which the transfer would result in a significant negative fiscal impact on government functions funded by the General Fund.

The Proposition 42 transfer was partially suspended in 2003-04 due to the inability of the General Fund to support the full transfer. The Administration proposes to fully suspend the Proposition 42 transfer in 2004-05—an action that will reduce General Fund expenditures by more than \$1.1 billion. In addition, the Administration's mid-year proposals related to the Proposition 42 transfer include the following:

- Transfer \$189 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund in 2003-04. The TCRF will receive funding of \$289 million in 2003-04 from the partial Proposition 42 transfer.
- Repeal the special statutory designation of Traffic Congestion Relief Program

projects. These projects were selected outside the normal transportation planning process and are partially funded with Proposition 42 money. Notwithstanding the General Fund leveraging other transportation resources, General Fund resources are not available to fund these projects in the current year or budget year. To the degree that these are the highest-priority local or State projects, it is anticipated that funding will be sought through the STIP or other funding sources.

Capital Outlay—A 2004-05 authorization level of \$3.4 billion is proposed for transportation capital outlay programs. This level of authorization includes expenditures from proceeds of GARVEE bonds.

Local Assistance Programs—Caltrans provides State and federal transportation funds to local agencies through its local assistance budget. Funds are used primarily for local capital improvement projects of the State highway system, mass transit capital improvement projects, and bridge improvement projects. Funds are also used to provide discretionary assistance to local transportation agencies. The Governor's Budget proposes nearly \$1.1 billion in local assistance funding for transportation in 2004-05, including \$168 million from the SHA, \$862 million in federal funds, and \$24 million from special funds.

State Operations Budget—The Governor's Budget proposes \$2.9 billion in state operations funding supporting transportation in 2004-05, including \$1.9 billion from the SHA, \$494 million in federal funds, and \$560 million from special funds. This funding level represents an increase of \$44 million compared to currently estimated 2003-04 expenditures. This increase is primarily the result of expenditures for GARVEE debt service.



Caltrans Staffing—In total, the Governor's Budget proposes 20,585.2 personnel years in 2004-05 for Caltrans, a net decrease of 338 personnel years compared to the adjusted 2003-04 level. This decrease results primarily from the proposal to suspend the Proposition 42 TIF transfer.

California Transportation Commission

Functions of the California Transportation Commission

The CTC is responsible for the programming and allocation of resources for the construction of highway, passenger rail, and transit improvements once those resources and fiscal policies have been determined through the annual budget process. The Administration anticipates that the CTC will need to use its maximum flexibility to assist both Caltrans and local transportation agencies in reallocating resources to address former Traffic Congestion Relief Program projects if those projects are determined to be of sufficient priority.

Budget Adjustment

The Governor's Budget proposes to eliminate 3.0 positions and \$314,000 from the CTC's budget to conform with the elimination of the Traffic Congestion Relief Program.

High-Speed Rail Authority

Functions of the High Speed Rail Authority

The High-Speed Rail Authority (Authority) is planning the development and implementation of an intercity high-speed rail service. Chapter 697, Statutes of 2002,

places a \$9.95 billion general obligation bond measure before voters in 2004 (the Safe, Reliable, High-Speed Train Bond Act for the 21st Century) to fund the planning and construction of the system.

Budget Adjustment

Notwithstanding the potential merit of providing high speed rail as an alternative mode of transportation to the State's travelers and commuters, the Administration proposes to repeal Chapter 697. Given the State's current fiscal situation, it would be premature for the State to move forward with additional General Fund debt of this magnitude at this time. The needs for funding high speed rail will be reviewed as part of an overall discussion of transportation resources.

Department Of Motor Vehicles

Functions of the Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Governor's Budget proposes \$705 million and 8,290 personnel years for support of the DMV.

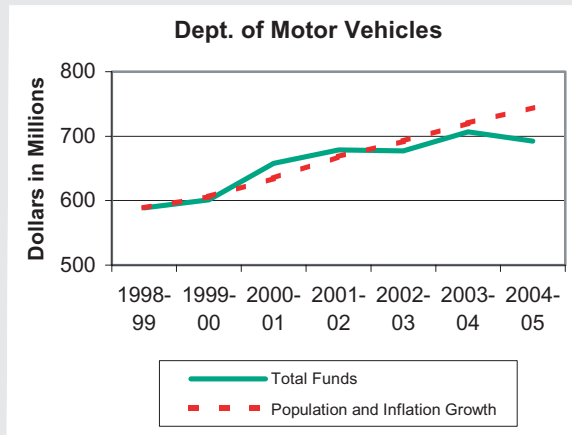
Department Of Alcoholic Beverage Control

Functions of the Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control administers the provisions of the

Key Audit Findings— Department of Motor Vehicles

- From 1998-99 to the 2003 Budget Act, total funding for the DMV has grown from \$589 million to \$707 million or approximately 20 percent. Of this amount, the support from the Motor Vehicle Account has increased by \$64 million (21 percent).
- During this same period, the total expenditures by the DMV were at or below the population and inflation growth level.



Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state. The Governor's Budget proposes total expenditures of \$42.8 million and 429.6 personnel years to support the Department.

Program Enhancements and Other Budget Adjustments

Replacement of Licensing and Case Management System—The Governor's Budget proposes funding of \$1.1 million to begin the first year of a three-year project to replace the obsolete California Alcoholic Beverage Information Network licensing system with a modern system which will meet the licensing and compliance information processing needs of the Department.

Department Of Financial Institutions

Functions of the Department of Financial Institutions

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, and other providers of financial services. The Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and travelers' checks. Companies licensed to transmit money abroad are also regulated by the Department. Programs are supported by assessment of the various industries and license and application fees. The Governor's Budget proposes total expenditures of \$23.6 million and 214.7 personnel years to support the DFI.



Program Enhancements and Other Budget Adjustments

California Financial Information Privacy Act—The Governor's Budget proposes to add \$1.9 million in special funds and 16.2 personnel years in the budget year so that the DFI can implement Chapter 241, Statutes of 2003. Chapter 241 imposes restrictions on financial institutions' ability to sell, share, transfer, or otherwise disclose a consumer's personal financial information with third parties.

Operational Recovery and System Security—The Governor's Budget also proposes an increase of \$185,000 and 1 personnel year to improve the Department's operational recovery strategy and information systems monitoring and security capabilities.

Department Of Corporations

Functions of the Department of Corporations

The Department of Corporations (DOC) administers and enforces State laws governing the offer and sale of securities and franchise investments, the licensing and regulation of securities broker-dealers and investment advisers, and the licensing and examination of mortgage brokers, finance lenders, and escrow companies. Through these activities, the Department protects the public and helps promote the integrity of California's financial services marketplace. The Governor's Budget proposes total expenditures of \$29 million and 276 personnel years to support the Department.

Program Enhancements and Other Budget Adjustments

California Financial Information Privacy Act—The Governor's Budget proposes to add \$1.9 million in special funds and 20.9 per-

sonnel years in the budget year so that the DOC can implement Chapter 241, Statutes of 2003. Chapter 241 imposes restrictions on financial institutions' ability to sell, share, transfer, or otherwise disclose a consumer's personal financial information with third parties.

Department Of Housing And Community Development

Functions of the Department of Housing and Community Development

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees the state's housing planning and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes \$613.5 million and 481 personnel years for the Department's activities.

Stephen P. Teale Data Center

Functions of the Stephen P. Teale Data Center

The Stephen P. Teale (Teale) Data Center assists California State agencies in meeting their business objectives by providing a cost-effective range of quality information technology services and products. The 2004-05 Governor's Budget proposes \$95.7 million and 362 personnel years for support of Teale.

Pursuant to legislation (Chapter 225, Statutes of 2003), the Administration is considering a reorganization plan to consolidate the Teale Data Center and the Health and Human Services Data Center, effective in fiscal year 2004-05, consistent with the overall Executive Branch reorganization review.

Key Audit Findings— Department Of Housing And Community Development

- From 1998-99 to the 2003 Budget Act, General Fund support for the HCD has decreased from \$21 million to \$16 million, or 25 percent.
- In 1998-99, the growth in the HCD's General Fund expenditures from the prior year was just slightly above the increase in population and inflation.
- In 2000-01, the State's expenditures for housing grew substantially due to the one-time, approximately \$500 million housing initiative.
- However, in 2001-02, this amount started trailing back down to a level consistent with population and inflation growth. By 2002-03 and continuing into 2004-05, HCD's General Fund expenditures are below the population and inflation growth level.

